

In the Matter of the Stipulated Settlement  
Regarding the Rates of AT&T  
Communications of the Midwest,  
Inc., Pursuant to Minn. Rules, Parts 7827.0100  
to 7827.0600 Relating to Rate Adjustments  
Due to the Tax Reform Act of 1986

ISSUE DATE: 9/29/87

DOCKET NO. P-442/M-87-429

ORDER APPROVING STIPULATION

### PROCEDURAL HISTORY

On June 29, 1987, the Minnesota Public Utilities Commission's (the Commission) permanent rules relating to rate adjustments due to the Tax Reform Act of 1986 (TRA), Minn. Rules, parts 7827.0100 to 7827.0600, became effective. These rules state that on and after July 1, 1987, overall rates of public utilities are unjust and unreasonable unless their rates have been adjusted to account for the reduction in federal income tax expense as a result of the TRA or certain alternative conditions are fulfilled. One of the alternatives is that rates have been established under a stipulated settlement and a Commission decision approving the settlement.

On June 29, 1987, AT&T Communications of the Midwest, Inc. (AT&T) filed a corporate agreement to refund any excess rates collected due to the TRA from and after July 1, 1987 while a stipulated settlement was pursued under Minn. Rules Part 7827.0300, item E.

On August 10, 1987, AT&T, the Minnesota Department of Public Service (DPS) and the Residential Utilities Division of the Office of the Attorney General (RUD-AG) submitted their Stipulated Settlement Regarding Rates of AT&T for Commission approval. AT&T included with the Stipulated Settlement a summary of its financial condition and the revenue impact of the TRA changes.

By their stipulation, the parties agreed that:

1. AT&T's rates on and after July 1, 1987 are not excessive in light of the TRA.
2. AT&T should be exempt under Minn. Rules, part 7827.0300, item E from the requirements of Minn. Rules, parts 7827.0400 to 7827.0600.
3. AT&T should include an amount of \$40,000 of reduced operating expense when it restructures its prices to reflect the impact of Commission's forthcoming decision in IntraLATA Toll Compensation, Docket No. P-999/CI-85-582 (582 case).

AT&T stated that the TRA would result in a \$230,000 revenue requirement reduction based on 1986 financial results of operations. This amount was computed using financial data from AT&T Communications of the Midwest, Inc., Docket No. P-442/M-87-54 (54 docket). The "54 docket" was dismissed without prejudice and reduced the Company's WATS rates by approximately \$4.5 million annually. Furthermore, AT&T claimed that events subsequent to the filing of the "54 docket" rate changes significantly increased its cost of doing business. AT&T's expenses will increase by approximately \$10 million due to the effects of Minnesota's gross receipts tax and Continental Telephone Company (Contel) access charges. AT&T attested that it is experiencing net operating losses in 1987 even with cost reductions due to the TRA.

AT&T and the parties stipulated to a reduction of \$40,000 in operating expenses to be included in price changes as a result of the pending "582 case". The \$40,000 reflects approximately two months of the \$230,000 annual TRA benefit plus interest at the prime rate.

AT&T currently has a rate increase filing being considered by the Commission in AT&T Communications of the Midwest, Docket No. P-442/EM-87-494, under 1987 Minnesota legislation (Minn. Laws 1987, Chapter 340) that permits an expedited proceeding for rate changes for emergingly competitive company services. Via an expedited proceeding, a telephone company may change its prices in a simpler and less time consuming manner than the traditional rate case process. AT&T and the parties believe the \$40,000 stipulated TRA adjustment will result in reasonable rates when considered in light of the 1987 legislation. For these reasons the parties believe the Stipulated Settlement is in the public interest.

The Commission finds that the calculations of the effect of the TRA on AT&T in the Stipulated Settlement are reasonable and consistent with those found by the Commission in previous TRA dockets. Evidence presented in the Stipulated Settlement demonstrate that savings due to the effects of TRA are offset by known and measurable cost increases from gross receipts tax and access

Thus, the impact on each service will be negligible and can reasonably be deferred for implementation with "582 case" rate changes. Therefore, the Commission finds the Stipulated Settlement to be in the public interest.

The Commission concludes that AT&T's rates are just and reasonable after July 1, 1987 for purposes of Minn. Rules, parts 7827.0100 to 7827.0600.

### ORDER

1. The August 10, 1987 Stipulated Settlement regarding the Rates of AT&T Communications of the Midwest, Inc. is approved and fulfills the requirements of Minn. Rules parts 7827.0100 to 7827.0600.
2. AT&T's rates for telecommunication services within the State of Minnesota shall be reduced by \$40,000 annually as a result of the Tax Reform Act of 1986.
3. The \$40,000 rate reduction will be implemented along with the "582 case" IntraLATA Toll Compensation rate changes.
4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen  
Executive Secretary

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